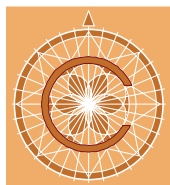


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CHEMONICS INTERNATIONAL INC.

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The contact information of the submitting party Chemonics International, Inc. is as follows:

Ms. Maha Schroder
Chemonics International, Inc.
1133 20th Street, NW
Washington, DC 20036
USA

Telephone: (202) 955-3300
Fax: (202) 955-7540
Internet: www.chemonics.com

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Bringing Customs Bonds to the Market in Jordan

Final Report
February 2005

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government

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Abstract

This report deals with the procedures necessary to bring suretyship products, with a focus on customs bonds, to the insurance market in Jordan. It will provide a roadmap to bridge the gap between the theoretical benefits of a customs bond program and the practical steps necessary to bring this program into reality.

Abbreviations and Acronyms

AMIR	Achievement of Market-Friendly Initiatives and Results (Program)
JCD	Jordan Customs Department
MGA	Managing general agent
SAA	Surety Association of America
TPA	Third party administrator
WTO	World Trade Organization

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Executive Summary

Synopsis

The USAID-funded AMIR Program to date has done an exemplary job in showing that customs bonds will enhance economic growth and development in Jordan. Adoption of a customs bond program will facilitate trade and advance the cause of Jordan in attracting foreign investments as well as in establishing the presence of multinational corporations in the country. This new suretyship product will allow Jordan Customs Department (JCD) to become more efficient, and both the public and private sectors will collaborate to maximize the economic gains of trade liberalization and free trade agreements.

The focus of this report deals with the procedures necessary to widen the offering of suretyship products in Jordan, with a focus on bringing the customs bond product to market. Impediments are identified and recommendations are made as to how and where to begin this process. Also outlined are tasks that could and should begin now while Jordan awaits the necessary changes in customs legislation and the Insurance Law. Three key elements are involved: the creation of the customs bond form, creation of the awareness campaign aimed at all parties involved in the process, and the creation and development of a managing general agent to manage the entire process. These are labor-intensive issues; however, they need to be addressed and will be integral to the success of the implementation of this program.

The key elements are as follows:

1. Customs legislation – addressed by a recent report on customs bonds.¹ In Progress.
2. Jordan Insurance Reg. Act No. 33 for the year 1999.² In Progress.
3. Development of the customs bond form acceptable to the JCD and selection of insurance company or syndicate of insurance companies.
 - a. Jordan Customs Department will need assurances that the new suretyship customs bond product will allow for the same ease and lack of complexity they currently enjoy with bank instruments and that the financial security provided by the insurance company or companies will match or exceed that currently experienced with Jordanian banks and the Central Bank of Jordan.
 - b. The insurance company or grouping of syndicated insurance companies will need detailed explanations of this new customs bond in that it differs from traditional insurance products currently on offer in Jordan. Parameters will need to be established regarding the individual exposures for each customs bond written as well as for maximum probable and maximum possible losses expected for the entire program. Reinsurance of this program would be prudent and the insurance legislation needs to be examined to determine if this (foreign insurance)

¹‘The Benefits and Use of Customs Bonds in Jordan’, prepared by M. Tarawneh for the AMIR Program, June 2004.

²Ibid.

is allowable. An amendment to the Insurance Regulatory Act may be required. Expected premium income levels will need to be set for the first three years of the program based on best available data of import activity in Jordan. Day-to-day operational issues of the insurance company will need to be addressed and training and workshop programs will need to be established to this end. A pricing policy for this customs bond will need to be established without the benefit of actuarial tables and will most likely be based on existing customs bond programs currently in effect.

4. Insurance company acceptance of a new suretyship product.

5. Distribution Channels

- a. The logical contact point with the importers into Jordan will be with the clearance agents already in place in Jordan and who are currently working with the importers on customs matters and other import obligations. It is possible they will not engage this new function without compensation and an incentive program will need to be examined. Legislative prohibitions to compensating clearance agents will need to be examined as they will receive income for an insurance product traditionally reserved for licensed and approved insurance agents or brokers.
- b. Insurance agents and brokers who customarily handle the commercial insurance needs and the international cargo insurance needs of the importers are an alternative source to the clearance agents. They will have a better understanding of the customs bond, which is regarded as an insurance product. Furthermore, they would most likely have the infrastructure in place within their organizations to manage the process of handling applications and indemnity agreements and gathering financial information that may be foreign and overly cumbersome to the clearing agents.
- c. A managing general agent (MGA) will be critical to this process. The MGA system is currently in place with the rather well-developed customs bond program in the United States. The MGA acts as the clearing house for all the parties involved, namely customs, the insurance provider of the customs bond, the reinsurer of the insurance provider, the clearance agents, the insurance agent or broker, and finally the importers themselves. More than 90 percent of the customs bond market in the United States is handled in this fashion. In this report, findings are presented on an examination of the insurance market in Jordan to determine if something of this nature currently exists. Alternatively, the potential of creating this type of market in Jordan is scoped to gauge the enthusiasm of the insurance and the banking communities within the country or to look at an existing MGA provider outside of Jordan who is willing and able to partner with Jordanian interests in providing this service.

6. Awareness Campaign

- a. As with any new product and given the complexities of this particular product and the large number of parties involved, there will exist a natural reluctance to adopt this customs bond discipline. Communications is essential. Joint workshops among the interested parties is key to the success and implementation of this program. Educational materials need to be readily available specific to the contributions of each interest. An explanation of the entire customs bond process needs to be made available to all parties showing how their individual interaction will fit into and affect the entire process. Manuals will need to be created and thoroughly reviewed and accepted by all of the interests involved.

Recommendations

Priority No. 1: Create a Managing General Agent

A preliminary search within the Jordanian insurance community revealed that a MGA with the capabilities to manage a customs bond program as well as miscellaneous surety bond programs do not currently exist.

Support Needed: An inquiry should be made to the five MGAs in the United States to determine their interest and willingness to participate in setting up a duplicate operation in Jordan in partnership or as a subcontractor. A Jordanian insurance broker or agent should also be identified to partner with the chosen US candidate. A minimum commitment from the US candidate would be needed for at least six months and could possibly take up to one year to start the program. Once the bond form were in use and the income stream to the MGA began, this entity would become self-sustaining.

Expected Impact: This new entity could assist in the development of the various surety bond forms. The entity could begin by creating suretyship underwriting manuals with capabilities to manage and direct various suretyship programs and assisting in the guidance of the awareness campaign.

Priority No. 2: Develop the Customs Bond Form

A joint effort by JCD and the insurance company is required as nothing can proceed until an actual bond forms have been created.

Support Needed: This process should begin at once and can be overseen by the AMIR Program up to the time that an MGA is established, at which point the MGA could take control of that function.

Expected Impact: A simplified bond that can be put into immediate use and that would be acceptable to JCD, the Jordan Contractors Association, and the Jordanian insurance market.

Priority No. 3: Create an Underwriting Manual

The Insurance companies that elect to underwrite the customs bond product would need outside guidance in establishing rules to govern their entry into this new class of business.

Support Needed: This process could begin at once and can be overseen by the AMIR Program up to the time an MGA was established. This would need coordination between JCD and the insurance companies.

Expected Impact: The rules and guidelines for underwriting this product would be written to be adopted and accepted by any Jordan insurance company. This would give the Jordan insurance company confidence in the MGA as well as provide them with a complete view of the risks and exposures that they would underwrite.

Priority No. 4: Establish a Marketing and Awareness Program

If the importing community were made aware of activities currently being implemented in the area of customs bonds, the acceptance level would be much greater when the bond is actually ready for use.

Support Needed: An independent general brochure should be created for distribution among importers, clearing agents, freight forwarders, local banks, and customs outlining the efforts made to date and listing the specific support given to date by the public and private sector. Periodic articles stating the progress of the customs bond program could be run in local newspapers. This could be done before the finalization of proposed legislation.

1. INTRODUCTION

The concept of customs bonds has been touched upon from many different angles in several previous reports; however, it is worth a brief overview for the purpose of the study at hand. A customs bond is a contract given to ensure the performance of an obligation imposed by law or regulation. The parties involved in the contract are the principal (importer), surety company, and the obligee (Customs). The primary purpose of a customs bond is to guarantee the payment of import duties and taxes as well as to assure compliance with all laws and regulations governing the entry of merchandise from foreign shipping points into a country of destination. An importer is required to post security that protects the revenue of the importing country generated by duties and assures compliance with any pertinent law, regulation, or instruction. When an import transaction takes place, the security for that transaction locks the importer of record into the following agreement:

- Agreement to pay duties, taxes and charges in a timely manner.
- Agreement to make a complete entry.
- Agreement to produce documents and evidence.
- Agreement to redeliver the merchandise.
- Agreement to rectify any non-compliance with provisions of admission.
- Agreement for examination of merchandise.
- Compliance with special requirements on duty-free entries or withdrawals.
- Compliance with Customs regulations applicable to security areas at ports and airports.

Default under a customs bond occurs when a principal fails to comply with the conditions of the bond that provide for compliance with the law and customs regulations. Defaults result in the assessment of liquidated damages or the issuance of demands to pay duties, taxes or other charges guaranteed by the bond. If the importer fails to pay these liquidated damages or other lawful charges assessed by customs, the surety must pay the customs the appropriate sum up to the bond amount.

It is important to understand that a customs bond is not insurance. With insurance, some losses are expected, and a portion of the premium is set aside to pay for losses. With a surety bond, each applicant is reviewed individually and no portion of the premium is set aside for losses. No surety would knowingly issue a bond for a principal likely to default. A customs bond does not protect an importer nor relieve an importer from its obligation to pay amounts due to customs. When the surety makes payment to customs under the terms of the bond, the surety has the right to demand reimbursement from the bond principal.

There are many types of customs bonds available to cover specific situations and types of goods common to international trade. A single transaction bond is used for one particular import shipment and can only be used for one Customs transaction. A continuous bond is a self-renewing term bond that covers all customs transactions for a specified importer on an annual basis.

2. SCOPING EXERCISE

This scoping exercise deals with the identification of impediments to further the development of the insurance industry in Jordan. Particular emphasis will be paid to areas where donor intervention can be used to increase the technical capacity of the private sector insurance companies to offer suretyship products.

Specific assistance has been requested by the Jordan Insurance Commission to address the following objectives:

1. Identify the potential market for suretyship insurance in Jordan according to category (e.g. performance bonds, customs bonds, etc.)
2. Determine whether the insurance industry can compete with banks in providing such products (banks do not provide suretyship products) and the advantages for customers in purchasing such bonds from the insurance companies.
3. Estimate the level of technical assistance and training to the insurance companies that would be required for the companies that wish to underwrite this class of business.
4. Determine steps to initiate an awareness campaign that shows the importance of the insurance products in general, including customs bonds issued by the insurance companies in particular.
5. Perform a study for all the legislation of relevance to suretyship insurance applications, such as Customs Law and others, in order to facilitate the launching of such products issued by the insurance companies in the market.

In reporting on the tasks assigned undertaken, many of the impediments will also be addressed and proposed solutions and observations will be offered.

3. POTENTIAL FOR SURETYSHIP

3.1 Importer Profile and Customs Activity

The following statistics characterize current activity and expected future growth of imports in Jordan, and support the development of a customs bond program in the country:

- In 2004, there were 8,031 registered importers in Jordan, according to the Import Registration Office at the Ministry of Industry and Trade.
- In 2003, the value of imports into Jordan reached 4.172 billion JDs, according to the Department of Statistics.
- According to the JCD, the amount of customs duties paid in 2004 was 206.32 million JDs.
- Fines and assessments issued by Customs (other than duties) amounted to 6.44 million JDs in 2004.
- According to the JCD and confirmed by the Syndicate Chairman of the Forwarders' Association, there are also currently 318 clearing agents throughout Jordan.

3.2 Assessment of Jordan's Insurance Market

A survey of all 26 insurance companies in Jordan was undertaken and reported on in broad detail.³ It has been determined that all Jordanian insurance companies are qualified to issue surety bonds, including customs bonds, and the financial pulse of the Jordan insurance market is healthy. Furthermore, a large majority of the insurance companies indicated they are willing to develop and issue customs bonds.

Insurance companies are generally willing to entertain a new class of business as all companies exist to write business and grow premiums. Few companies would categorically dismiss the opportunity to write additional business unless they were precluded by unsavory and dangerous margins of solvency or were not authorized to write certain classes of business.

3.3 Impediments to Involvement of Insurance Companies

In reality, there are several factors to be considered that would limit or restrict an insurance company from entertaining a new class of business. Commitment of personnel to a new program is a main concern. New programs take time to earn premiums once a decision has been made to enter that class of business, and furthermore they would require a significant amount of time in training personnel to handle the new workload. This is sometimes not a burden on existing resources if the new product is similar to a class currently written; however, surety bonds differ a great deal from traditional insurance products. There needs to be a conscious commitment from management of the insurance company to engage in any new activity and the expenses and commitments of resources for a new program is not always measurable.

As an insurance company enters a new class of business, there are certain factors that will remove some of the uncertainties inherent to a new program. Outside intervention by an entity already engaged in a surety bond program would most likely be required and

³'The Benefits and Use of Customs Bonds in Jordan', prepared by M. Tarawneh for the AMIR Program, June 2004.

recommendations for possible options will be addressed in subsequent sections in this report.

3.4 Insurance Regulatory Commission Assessment

Another factor that the insurance company would need to consider is the possible effect of this new premium on their existing premium volumes and whether it would require an infusion of capital to write this additional class. Article 23 of the Insurance Regulatory Act No. 33 of 1999 deals with the solvency margin and the minimum guaranty fund required by insurance companies in Jordan. The anticipated premium from customs bonds may have an effect on margin requirements. Reinsurance would have a soothing effect on the potential peaks and valleys often experienced when writing a new class of business. Reinsurance of any new program would be recommended, especially in the early development stages and until a track record of premiums and losses can be established. This need for reinsurance would require that tight underwriting controls be put in place for a reinsurer to step in at a premium level that would not undermine the basic program. A recommendation will follow where intervention by an outside source currently involved in a customs bond program could be required .

Fieldwork undertaken as background to the preparation of this report included a meeting held at the Insurance Regulatory Commission, attended by its Senior Technical Advisor and the Director of the Legal Affairs Department. Commission representatives expressed gratitude and continued support for the efforts to date of the AMIR Program, and the tone of the meeting was positive. The Commission welcomed the introduction of new insurance products into Jordan and understood the need for outside intervention and technical assistance in support of these new products. They requested that any reinsurance of these programs be first offered to the Jordanian insurance market before being taken to the world market so that the Jordanian market is strengthened to meet outside competition. From a legal perspective, the Insurance Commission is ready to amend the current legislation to accommodate customs bonds only, rather than extend legislation to include the entire range of suretyship products being offered in Jordan. The Commission felt comfortable that customs bonds would be the lead product and were of the opinion that a concentrated effort could be made in launching this product rather than diluting the effort with a myriad of products. Other suretyship products include performance and bid bonds for contractors that could follow in due course following the customs bond acceptance.

A similar meeting was held with the Secretary General of the Jordan Insurance Federation with the same positive results. All individuals present at these meeting were pleased to see that USAID, through the AMIR Program, is now taking the steps necessary to bring this product into Jordan market.

3.5 Performance Bonds

According to the senior advisor in the Insurance Commission, it is advisable to first introduce suretyship to the Jordanian insurance market via the customs bond as major strides have already been made to date through the technical assistance offered by USAID through the AMIR Program to identify and justify this product. The Insurance Commission is prepared to propose new legislation, and indicated that they would proceed as soon as possible, even if the approval were to be confined to customs bonds and not to overall suretyship. Banks are now aware of customs bonds and the impending changes to bank

guarantees, primarily through the efforts of the AMIR Program. It is also promising to eventually widen the scope to include the area of contractors' bonds. At the top of the list of these contract bonds are the performance bonds and bid bonds.

Preliminary data was collected from the Jordan Contractors Association. As advised by the Secretary General of the association, the construction contractors' sector is seriously concerned with the issue of performance bonds because of the relatively heavy burden of bank guarantees that contractors experience.

Out of the statistics prepared by the association, it is worth noting that there were 1,506 contractors registered in Jordan at the end of 2004. The number of government construction contracts in the same year was 1,280. The total contract values were 414 million JDs. Other than bid bonds that are normally lump sum instruments commensurate with the value and price of the contract, the construction contractors were to provide performance bonds approximating 42 million JDs. The only available securing vehicle for these bonds was the bank guarantee. In this regard, the principal contractors had to tie up an amount of approximately 6.3 million JDs of cash as security margins for the guarantees in addition to other collateral they placed with the banks in the form of estate mortgages and the like.

Although it appears that the customs bond program is further along in its development stage at this point, the issue of contractors bonds and miscellaneous surety bonds should be given a full measure of attention as well. The efforts required to bring the customs bonds into reality will support that which is necessary to introduce suretyship into Jordan across the board. The concept of suretyship crosses into many specialty fields. Once the customs bonds are functional there would be distinct advantages to having this introduction of suretyship made to Jordan across all disciplines where surety applies at the same time.

4. COMPETITIVENESS OF CUSTOMS BONDS VERSUS BANK GUARANTEES

4.1 Obtaining a Surety Bond

From a pure cost perspective, the customs bond provides a much more beneficial financial option to secure import duties and other customs obligations than cash or an alternative banking instrument. Obtaining a surety bond is very much like attempting to obtain a loan or a line of credit from a bank. A company or an individual must be able to prove their capacity to repay the loan. In the case of a bond, one must prove the ability to perform as expected, which involves paying customs duties and conforming with all necessary import regulations. In both instances, basic information is needed to make an evaluation. This includes an application, a personal or business financial statement and other financial information deemed pertinent to the bank or surety company. Without this information, a proper evaluation of whether a risk should be undertaken can not be made. The requirements of an importer in securing a customs bond compared with acquiring a bank instrument are remarkably similar. Once the customs bonds are permitted to act as security for customs, the importers will notice little difference in what they currently are providing. The procedures imposed on the importers to obtain a customs bond will not be onerous and it is unlikely that the importing community would resist from a procedural perspective.

4.2 Prime Advantages of Bonds over Bank Guarantees

Probably the single most important aspect of a customs bond over cash security is that the importer and other relevant interested parties in the importing process free up working capital that has been committed to the bank to secure customs transactions. This would naturally allow the importer to engage in more international trade activity while operating from the same asset base as before.

Time delays and cumbersome paperwork are associated with importation of goods, which the introduction of customs bond is designed to eliminate. The fast moving pace of international trade makes it necessary for all competitive countries to adopt the use of a customs bond program. Referring to the evaluation of the Jordanian economy of the International Monetary Fund, exports in Jordan are expected to grow by six to eight percent a year for the next several years. This growth rate would be realized from the free trade agreements with the United States and Europe. The same report showed a 47 percent surge in exports in 2004 year with a lesser expansion in imports of 39 percent.⁴ This activity currently being experienced along with anticipated future increases in the medium term requires better systems to be in place to promote trade facilitation. The customs bond scenario, when adopted, will make the JCD more efficient to handle the increased cargo moving in and out of Jordan, which will keep the goods moving with the least amount of financial hardship on the importers.

By the use of customs bonds, besides having the costs attributable to the importer being a fraction of the costs of using working capital to secure an import transaction, the importers can pre-arrange an entire year of import activity with the JCD and eliminate the need to deal with individual import transactions.

⁴ *The Jordan Times*, February 7, 2005, p.11.

It should not be lost that by freeing up working capital, importers could purchase more goods from their same financial asset base, thereby stimulating economic growth of the country.

4.3 Impact on Related Industries

Once the importers acquire this power to purchase more goods, the banking industry will likely be affected positively and will finance additional purchases, thus taking the banking sector to a higher level. The income to banks from additional purchasing transactions should offset any income loss experienced from arranging security deposits for import transactions. From an indemnity perspective on customs bonds, there will be times when the underwriting guidelines for a specific importer require the bond to be secured by cash or a letter of credit or other bank guarantee so it can be assumed that banks will still be an integral part of the customs bond world.

5. TECHNICAL ASSISTANCE AND TRAINING REQUIREMENTS

The level of technical assistance and training will be a key component to the success of the customs bond program as well as be one of the main elements that dictate the timeline at which the program begins. Other than developing the actual customs bond form, this particular component will have the highest level of importance. It can be stated at this time that outside intervention will be necessary to assist the insurance company or group of insurance companies in Jordan who will choose to write this class of business. This will also be a key element in arranging suitable reinsurance for the program.

5.1 Manual of Operations

A manual of operations will need to be developed with particular attention being paid to the following categories:

- A. An introduction that clearly defines a customs bond and spells out its need. Explanation of what constitutes default under a bond and what are the alternatives to posting a customs bond.
- B. A listing of the types of customs bonds that are available under the program.
- C. How one determines the bond amount required for an individual importer. Who must use single transaction bonds and who qualifies for a continuous (annual) bond.
- D. Underwriting guidelines setting up underwriting limits of authority by those actually authorized to issue and file the bond as well as the financial requirements to be met for single transaction bonds and continuous bonds. Sample letters requesting financial statements and general guidelines relative to collateral requirements.
- E. Instructions on completing the bond form and the distribution of the reporting copies.
- F. Filing the actual bond with Customs.
- G. Terminating a bond.
- H. Addressing changes to a bond such as changes in the status of the importer and increasing the bond amount of an existing bond. There will also be riders adding or deleting trade names under the bond as well as changes of address and the like.
- I. Billing procedures dealing with rating the bond and reporting requirements and payment terms.
- J. Instructions on how to establish a detailed claims system that specifies the notification requirements from Customs and the claims handling requirements in dealing with the importer.

The operations manual should be written to satisfy the requirements of the insurance company however it should also be written with the input of Jordan Customs as well as the distribution chain involved in dealing with the importers.

5.2 Insurance Company Interest and Concerns with Customs Bonds

Specific meetings were held with the general managers of Jerusalem Insurance Co. Ltd. and the United Insurance Company Ltd. in Amman. These companies were original respondents to a survey conducted that gauged the interest of Jordan's insurance community in their desire to write customs bonds. The purpose of the meeting was to reconfirm their original interest and gauge the level of commitment of their existing corporate resources to such a project. A major objective was to request what would be necessary from their perspective to proceed with the program.

The findings were similar in nature. Both companies showed an energetic willingness to entertain this new product and both agreed it would be a welcome supplement to their existing books of business. Each confirmed that they would require outside support for this program which led to a discussion of turning this function over to a third party administrator (TPA) or a managing general agent (MGA). This concept is not foreign to either company as this is the current scenario in place with medical coverage. Both were in agreement that this is a very efficient way for an insurance company to increase their premium income numbers without the addition of staff and other related expenses. The TPA or MGA would have to demonstrate a high level of knowledge and operational skills in this class of business before the companies would support them and this finding, of course, was anticipated. The concept of pooling or sharing among other insurance companies in Jordan was discussed with no adverse results, and each was inclined to seek reinsurance for this program. They also welcomed the concept of having the TPA or MGA involved in this process. Lastly, legislative issues would need to be addressed whereby the insurance companies would be permitted to write this class of business.

5.3 Underwriting Results

Underwriting results for existing customs bond programs were requested to support the conventional wisdom that this class of business has the potential to be very profitable for the insurance companies involved.

The following chart provides support for this. These are numbers reported by the members of the Surety Association of America (SAA) and track a six-year progression of activity for continuous bond and single transaction bond premium and losses. This report was edited from a more detailed report showing activity by year, by class and by state. However, for the purposes of this report, one can see that this has been a profitable class of business.⁵

⁵ SAA statistical services accessed via a customized report request available through membership in the Association.

Continuous Bond and Single Transaction Bond Premium and Losses, 1995-2000

Year	Class	Written	Earned	Incurred Loss	Ratio (Earned/Loss)
1995	Continuous	12,131,058	9,310,274	782,244	8.4%
	Single Entry	<u>1,435,184</u>	<u>736,708</u>	-	--
	TOTAL	13,566,242	10,046,982	782,244	7.8%
1996	Continuous	14,772,323	13,342,651	1,583,509	11.9%
	Single Entry	<u>2,223,705</u>	<u>1,880,363</u>	<u>27,047</u>	<u>1.4%</u>
	TOTAL	16,996,028	15,223,014	1,610,556	10.6%
1997	Continuous	14,932,364	15,092,869	707,287	4.7%
	Single Entry	<u>2,340,889</u>	<u>2,392,990</u>	<u>179,608</u>	<u>7.5%</u>
	TOTAL	17,273,253	17,485,859	886,895	5.1%
1998	Continuous	16,350,214	16,145,864	1,167,991	7.2%
	Single Entry	<u>211,369</u>	<u>2,182,199</u>	<u>11,184</u>	<u>0.5%</u>
	TOTAL	18,463,873	18,328,063	1,179,175	6.4%
1999	Continuous	16,563,597	15,225,736	2,702,273	17.7%
	Single Entry	<u>3,251,334</u>	<u>2,908,503</u>	<u>487,072</u>	<u>16.7%</u>
	TOTAL	19,814,931	18,134,239	3,189,345	17.6%
2000	Continuous	17,257,611	15,118,419	2,968,600	19.6%
	Single Entry	<u>3,958,647</u>	<u>3,779,527</u>	<u>501,538</u>	<u>13.3%</u>
	TOTAL	21,216,258	18,897,946	3,470,138	18.4%
GRAND TOTAL		107,330,585	98,116,103	11,118,353	11.3%

Source: Surety Association of America.

6. AWARENESS CAMPAIGN

6.1 Timing of Campaign

An awareness campaign should be initiated at the earliest possible opportunity to expand on the virtues of using insuring products in general and surety products, including customs bonds. This task covers a vast array of ground and it would be more effective if a specific topic were addressed directly to the business sector involved.

As with any new product and given the complexities of customs bonds as well as the number of parties involved to the transaction, a natural reluctance to adopt this concept en masse is likely. A communication plan would therefore be essential and joint workshops between the interested parties would be a key to success.

6.2 Full disclosure to All Parties

Educational materials need to be generated and readily available that are specific to the contributions of each interest. Also valuable would be an explanation as to the entire process showing the contribution and interaction of each party into the overall process. Manuals would likewise need to be created, thoroughly reviewed, and accepted by all those interested.

6.3 Where to Announce Program

The Amman Chamber of Commerce distributes a monthly publication to all of its 5,000 registered members titled “Al Iqtisadi Al Ordoni” (The Jordanian Economist). Recipients of this publication include traders, banks, insurance companies, clearing agents, and freight forwarders. *The Jordan Times* should also receive periodic articles to be printed along the lines of the article that follows.

6.4 Sample Notification

Press Release

Title: Jordan Nears Adoption of Customs Bonds to Facilitate Trade

The AMIR Program in Jordan, funded by the United States Agency for International Development, is making strong progress toward its goal in initiating customs reform. All components of the public and private sectors that will be affected by the adoption of customs bonds in Jordan have been invited to provide their input into the process. The legislative changes necessary to allow for the use of customs bonds as an alternative to bank guarantees is well underway and plans are currently being made to develop steps to bring this product into the market.

Interested parties to this process include Jordan Customs Department, the Insurance Commission and the Insurance Federation of Jordan, Insurance agents and brokers, customs clearance agents, the Jordan banking community and lastly, the importing community of Jordan. It is the intention of the USAID-funded AMIR Program to promote the establishment of a managing general agent to oversee this entire customs

bond process and act as the clearing house for all liaison between customs, the insurance sector, the distribution chain and the importers.

In 2000, Jordan joined the World Trade Organization (WTO) and became the fourth country to sign a bilateral trade agreement with the United States. These events have enormous potential to boost trade and the adoption of a customs bond program will facilitate a smooth entry process of goods into Jordan as well as for goods passing through Jordan.

The customs reform and modernization subcomponent of the USAID-funded AMIR Program seeks to promote best practice activities that will enhance the efficiency of customs operations in Jordan. The impact of this modernization will attract outside investors and multinational corporations into Jordan, expand trade and increase national revenue.

7. LAUNCHING CUSTOMS BONDS IN JORDAN

There are a few options available to get suretyship products to the end user and serve as the distribution channel.

7.1 Clearing Agents

The logical contact point with the importers in Jordan would be the clearance agents who are already in place and who are currently working with the importers on customs matters and other import obligations. It is possible they would not engage in this new function without compensation and an incentive program will need to be examined. Legislative prohibitions to compensating clearance agents will need examination as they will effectively be receiving income for distribution of an insurance product traditionally reserved for licensed and approved insurance agents and brokers.

A meeting was conducted with the Syndicate Chairman of the Forwarders Association and Clearing Agents and it was concluded that the clearing agents would be available to be an integral part of the distribution chain.

7.2 Insurance Agents and Brokers

Insurance agents and brokers who customarily handle the commercial insurance needs and the international cargo insurance needs of the importers are an alternative source of distribution and may be a supplemental source to the clearance agents, if they are the group selected. They would have a better understanding of the customs bond which actually functions as an insurance product and they would most likely have the infrastructure in place within their organizations to manage the process of handling applications and indemnity agreements and gathering financial information which may be foreign and overly cumbersome to the clearing agents.

7.3 Managing General Agent

A third party administrator or managing general agent would be critical to this process. This is currently the case for the well developed customs bond program in the United States. The managing general agent acts as the clearing house for all the parties involved, namely customs, the insurance provider of the customs bond, the reinsurer of the insurance provider, the clearance agents and the insurance agents and brokers, as well as the importers themselves. In excess of 90 percent of the available customs bond business in the United States is handled in this fashion and it would be necessary to examine the insurance market in Jordan to determine whether something of this nature currently exists. Early indications are that the only other third party administrators in Jordan are involved with medical insurance and the variables of the two disciplines would not be compatible. Alternatively, we need to scope the potential of creating this in Jordan. Lastly, a third party administrator outside of Jordan who currently administers a similar program would need to be engaged to enter a partnership with Jordanian interests in providing this service.

7.4 Existing MGAs for Customs Bonds in the United States

Although customs bonds in the United States are available from many sources, there are generally recognized a group of five firms that operate as MGAs with underwriting and claims authority from their respective insurance companies. This group accounts for well over 90 percent of all customs bonds filed in the United States. The list is as follows:

Avalon Risk Management Inc.
150 Northwest Point Blvd. – 4th Floor
Elk Grove Village, Illinois 60007

James Gorman Insurance, Inc.
One Exeter Plaza – 3rd Floor
Boston, Mass. 02116

International Bond and Marine Brokerage, Ltd.
2 Hudson Place – 4th Floor
Hoboken, New Jersey 07030

Roanoke Trade Services, Inc.
1501 Woodfield Road – Suite 302N
Schaumburg, Illinois 60173

C. A. Shea & Company, Inc.
720 Palisade Avenue
Englewood Cliffs, New Jersey 07632

These firms listed above could be contacted to determine their partnership capabilities and their appetite for becoming involved in the customs bond program in Jordan.

Annex A: Customs Bond (Customs Form 301)

<https://forms.customs.gov/customsrf/getformharness.asp?formName=cf-301-form.xft>

U.S. DEPARTMENT OF HOMELAND SECURITY Bureau of Customs and Border Protection				OMB No. 1651-0050	
CUSTOMS BOND				CBP USE ONLY	BOND NUMBER 1 (Assigned by CBP)
19 CFR Part 113					FILE REFERENCE
In order to secure payment of any duty, tax or charge and compliance with law or regulation as a result of activity covered by any condition referenced below, we, the below named principal(s) and surety(ies), bind ourselves to the United States in the amount or amounts, as set forth below.					Execution Date
SECTION I--Select Single Transaction OR Continuous Bond (not both) and fill in the applicable blank spaces.					
<input type="checkbox"/> SINGLE TRANSACTION BOND	Identification of transaction secured by this bond (e.g., entry no., seizure no., etc.)			Date of transaction	Port code
<input type="checkbox"/> CONTINUOUS BOND	Effective date	This bond remains in force for one year beginning with the effective date and for each succeeding annual period, or until terminated. This bond constitutes a separate bond for each period in the amounts listed below for liabilities that accrue in each period. The intention to terminate this bond must be conveyed within the period and manner prescribed in the Customs Regulations.			
SECTION II-- This bond includes the following agreements. 2 (Check one box only, except that, 1a may be checked independently or with 1, and 3a may be checked independently or with 3. Line out all other parts of this section that are not used.					
Activity Code	Activity Name and Customs Regulations in which conditions codified	Limit of Liability	Activity Code	Activity Name and Customs Regulations in which conditions codified	Limit of Liability
<input type="checkbox"/> 1	Importer or broker 113.62		<input type="checkbox"/> 5	Public Gauger 113.67	
<input type="checkbox"/> 1a	Drawback Payments Refunds 113.65		<input type="checkbox"/> 6	Wool & Fur Products Labeling Acts Importation (Single Entry Only) 113.68	
<input type="checkbox"/> 2	Custodian of bonded merchandise 113.63 (Includes bonded carriers, freight forwarders, cartmen and lightermen, all classes of warehouse, container station operators)		<input type="checkbox"/> 7	Bill of Lading (Single Entry Only) 113.69	
<input type="checkbox"/> 3	International Carrier 113.64		<input type="checkbox"/> 8	Detention of Copyrighted Material (Single Entry Only) 113.70	
<input type="checkbox"/> 3a	Instruments of International Traffic 113.66		<input type="checkbox"/> 9	Neutrality (Single Entry Only) 113.71	
<input type="checkbox"/> 4	Foreign Trade Zone Operator 113.73		<input type="checkbox"/> 10	Court Costs for Condemned Goods (Single Entry Only) 113.72	
SECTION III-- List below all tradenames or unincorporated divisions that will be permitted to obligate this bond in the principal's name including their CBP identification Number(s). 3 (If more space is needed, use Section III (Continuation) on back of form.)					
Importer Number		Importer Name		Importer Number	
				Total number of importer names listed in Section III:	
Principal and surety agree that any charge against the bond under any of the listed names is as though it was made by the principal(s).			If the surety fails to appoint an agent under Title 6, United States Code, Section 7, surety consents to service on the Clerk of any United States District Court or the U.S. Court of International Trade, where suit is brought on this bond. That clerk is to send notice of the service to the surety at:		
Principal and surety agree that they are bound to the same extent as if they executed a separate bond covering each set of conditions incorporated by reference to the Customs Regulations into this bond.			Mailing Address Requested by the Surety		
PRINCIPAL	Name and Address	Importer No. 3		SEAL	
		SIGNATURE 5			
PRINCIPAL	Name and Address	Importer No. 3		SEAL	
		SIGNATURE 5			
SURETY 4, 6	Name and Address 6	Surety No. 7		SEAL	
		SIGNATURE 5			
SURETY 4, 6	Name and Address 6	Surety No. 7		SEAL	
		SIGNATURE 5			
SURETY AGENTS	Name 8	Identification No. 9	Name 8	Identification No. 9	

PART 1 - CBP, PART 2 - SURETY, PART 3 - PRINCIPAL

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Note: Turn carbons over before writing on back of form.											
SECTION III (Continuation)											
Importer Number	Importer Name	Importer Number	Importer Name								
WITNESSES		SIGNED, SEALED, and DELIVERED in the PRESENCE OF:									
Two witnesses are required to authenticate the signature of any person who signs as an individual or partner; however a witness may authenticate the signatures of both such non-corporate principals and sureties. No witness is needed to authenticate the signature of a corporate official or agent who signs for the corporation.		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 2px;"> Name and Address of Witness for the Principal </td> <td style="width: 50%; padding: 2px;"> Name and Address of Witness for the Surety </td> </tr> <tr> <td style="padding: 2px;"> SIGNATURE: </td> <td style="padding: 2px;"> SIGNATURE: </td> </tr> <tr> <td style="padding: 2px;"> Name and Address of Witness for the Principal </td> <td style="padding: 2px;"> Name and Address of Witness for the Surety </td> </tr> <tr> <td style="padding: 2px;"> SIGNATURE: </td> <td style="padding: 2px;"> SIGNATURE: </td> </tr> </table>		Name and Address of Witness for the Principal	Name and Address of Witness for the Surety	SIGNATURE:	SIGNATURE:	Name and Address of Witness for the Principal	Name and Address of Witness for the Surety	SIGNATURE:	SIGNATURE:
Name and Address of Witness for the Principal	Name and Address of Witness for the Surety										
SIGNATURE:	SIGNATURE:										
Name and Address of Witness for the Principal	Name and Address of Witness for the Surety										
SIGNATURE:	SIGNATURE:										
EXPLANATIONS AND FOOTNOTES											
<table border="0" style="width: 100%;"> <tr> <td style="vertical-align: top; width: 50%;"> 1 The CBP Bond Number is a control number assigned by CBP to the bond contract when the bond is approved by an authorized CBP official. 2 For all bond coverage available and the language of the bond conditions refer to Part 113, subpart C, Customs Regulations. 3 The Importer Number is the CBP identification number filed pursuant to section 24.5, Customs Regulations. When the Internal Revenue Service employer identification number is used the two-digit suffix code must be shown. 4 If the principal or surety is a corporation, the name of the State in which incorporated must be shown. 5 See witness requirement above. </td> <td style="vertical-align: top; width: 50%;"> 6 Surety Name, if a corporation, shall be the company's name as it is spelled in the Surety Companies Annual List published in the Federal Register by the Department of the Treasury (Treasury Department Circular 670). 7 Surety Number is the three digit identification code assigned by CBP to a surety company at the time the surety company initially gives notice to CBP that the company will be writing CBP bonds. 8 Surety Agent is the individual granted a Corporate Surety Power of Attorney, CBP 5297, by the surety company executing the bond. 9 Agent Identification No. shall be the individual's Social Security number as shown on the Corporate Surety Power of Attorney, CBP 5297, filed by the surety granting such power of attorney. </td> </tr> </table>				1 The CBP Bond Number is a control number assigned by CBP to the bond contract when the bond is approved by an authorized CBP official. 2 For all bond coverage available and the language of the bond conditions refer to Part 113, subpart C, Customs Regulations. 3 The Importer Number is the CBP identification number filed pursuant to section 24.5, Customs Regulations. When the Internal Revenue Service employer identification number is used the two-digit suffix code must be shown. 4 If the principal or surety is a corporation, the name of the State in which incorporated must be shown. 5 See witness requirement above.	6 Surety Name, if a corporation, shall be the company's name as it is spelled in the Surety Companies Annual List published in the Federal Register by the Department of the Treasury (Treasury Department Circular 670). 7 Surety Number is the three digit identification code assigned by CBP to a surety company at the time the surety company initially gives notice to CBP that the company will be writing CBP bonds. 8 Surety Agent is the individual granted a Corporate Surety Power of Attorney, CBP 5297, by the surety company executing the bond. 9 Agent Identification No. shall be the individual's Social Security number as shown on the Corporate Surety Power of Attorney, CBP 5297, filed by the surety granting such power of attorney.						
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<p>Paperwork Reduction Act Notice: The Paperwork Reduction Act says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for this information to carry out the Bureau of Customs and Border Protection laws and regulations of the United States. We need it to ensure that persons transacting business with CBP have the proper bond coverage to secure their transactions as required by law and regulation. Your response is required to enter into any transaction in which a bond is a prerequisite under the Tariff Act of 1930, as amended. The estimated average burden associated with this collection of information is 15 minutes per respondent or recordkeeper depending on individual circumstances. Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be directed to Bureau of Customs and Border Protection, Information Services Branch, Washington, DC 20229, and to the Office of Management and Budget, Paperwork Reduction Project (1651-0050), Washington, DC 20503.</p> <p>Privacy Act Statement: The following notice is given pursuant to section 7(b) of the Privacy Act of 1974 (5 U.S.C. 552a). Furnishing the information of this form, including the Social Security Number, is mandatory. The primary use of the Social Security Number is to verify, in the CBP Automated System, at the time an agent submits a CBP bond for approval that the individual was granted a Corporate Surety Power of Attorney by the surety company. Section 7 of Act of July 30, 1947, chapter 350, 81 Stat. 646, authorizes the collection of this information.</p>											
CBP Form 301 (05/98)(Back)											

Annex B: Interviews Conducted

February 3, 2005 - Mohammed Al-Jaloudi, Director of Legal Affairs and Mr. Firas, Section Head in Legal Affairs, Jordan Customs

February 7, 2005 - Ahmad H. Khatil, General Manager, Jerusalem Insurance Company

February 7, 2005 - Taisir M. Mashal, General Manager, The United Insurance Company

February 13, 2005 - Dr. Hisham Baban, Senior Technical Advisor and Raed K. Haddadin, Director of Legal Affairs Department, Insurance Regulatory Commission

February 13, 2005 - Maher Al Hussein, Secretary General, Jordan Insurance Federation

February 13, 2005 - Salim Y. Jadoun, Syndicate Chairman, Forwarders Association and Customs Clearance Syndicate

February 15, 2005 - Ra'fat al-Halaseh, Associate General Manager and Chief Credit Officer, Arab Banking Corporation (Jordan)

February 15, 2005 - Samir Y. Mansour, Executive Manager, Central Documentary Credits Department, Bank of Jordan

February 15, 2005 - Ibrahim Naouri, Chairman, Naouri Group

February 16, 2005 - Na'el Malhas, Secretary General, Jordan Contractors Association

February 16, 2005 - Hala Al-Khasawneh, Head of Documents and Information Section, Jordan Chamber of Commerce